Harvard Business Review
ANALYTIC SERVICES

Pulse Survey

USING TRANSPARENCY TO ENHANCE REPUTATION AND MANAGE BUSINESS RISK

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BASWARE

At Basware we see Visible Commerce as the future. We see a world where there is complete visibility across all the flows of money, goods, and services globally, leading to more effective and ethical decision making and a better economy for all.

How are businesses responding to demands for transactional transparency from customers and wider society? Company leaders need a more holistic approach, which means knowing what sits underneath all their transactions. At Basware, we see such Visible Commerce as a way to simplify operations, spend smarter, and do more.

We partnered with Harvard Business Review Analytic Services to take the pulse of business leaders and to understand how digitization is empowering strategic decision making at their firms. I am pleased to share the findings of how this elite group of company executives are using transparency to mitigate risk, create business value, and hone their competitive edge.

This report explores the full value that such transparency delivers. It provides a lens over the advantages of automating finance and procurement processes. It finds that those working toward the total visibility of the flow of money, goods, and services are able to make more effective strategic decisions, and this transparency is a defining characteristic of winning businesses worldwide. Those that have invested in improving visibility across finance and procurement benefit from greater employee engagement, improved reputation, and revenue growth.

Conversely, a lack of visibility across the supply chain, and the associated reputational risks, are recognized as a grave concern of chief executives and CFOs. Increasingly they are turning to their finance teams to explore the untapped potential of data-led insights and unlock the potential unrealized value that a better grasp of their operations could provide. The smooth flow of financial data between suppliers and buyers quietly underpins global trade. From ordering a taxi to renewing an option on wheat grain, we each have the power to change the world for better or worse with the push of a button.

Today's interconnected world transcends physical boundaries and delivers tremendous business advantages in terms of speed, convenience, and efficiency. But it also comes with the risk of allowing trusted human connections between buyer and supplier to be lost or faked. We live in a world where technology giants Google and Facebook voluntarily paid out $172 million in fake invoices to a single man posing as a legitimate supplier.

From accounts payable to quality management, visibility of such data is helping businesses become better corporate citizens. It allows them to take responsibility for not only the quality of goods and services but also the manner in which they are produced. Visibility of financial data is about more than purchase-to-pay solutions, although we believe this technology is a key enabler. It requires a wider shift in management attitudes toward tracking and valuing an organization's reputation as a responsible operator. It is part of being able to prove to customers, partners, and regulators that you are not just faster, cheaper, and more efficient, but that you uphold high ethical standards that benefit society.

Businesses need visibility—the world thrives through transparency. From the opportunity to simplify operations, spend smarter, and do more, automation of finance and procurement empowers businesses to move forward with confidence. I hope that this report encourages more to recognize the competitive advantage of Visible Commerce.

For more information about how Basware can help your organization realize its own Visible Commerce strategy, please visit www.basware.com/visiblecommerce

USING TRANSPARENCY TO ENHANCE REPUTATION AND MANAGE BUSINESS RISK

At a time when customer trust is low, economic uncertainty is on the rise, and the pace of change continues to accelerate, business transparency can build loyalty with customers, distributors, retailers, and employees; help manage risk and reputation; and establish ethical and sustainable supply chains.

The movement toward transparency—operating in a way that makes it easy to see what actions are being performed and to understand how money is being spent across the organization—is being driven by increasing customer concerns about the ethics of business and by the competitive advantages that transparency can bring to an organization.

Those companies that have invested in more visible finance and procurement, for instance, see greater transparency throughout the rest of the organization and with it, greater employee engagement, reputational lift, and better decision making. They also see greater cost savings and revenue growth, according to a survey of 779 global executives conducted by Harvard Business Review Analytic Services. In fact, 90% of respondents say increased business transparency leads to better-informed decision making across the entire organization.

But survey respondents also warn that to fully realize this vision, organizations still need to overcome technical, organizational, and cultural barriers. FIGURE 1 Not overcoming these barriers can lead to an array of challenges when it comes to risk and reputation management and increases the difficulty of effectively managing a sustainable supply chain.

HIGHLIGHTS

90%
OF EXECUTIVES SAY INCREASED BUSINESS TRANSPARENCY LEADS TO BETTER-INFORMED DECISION MAKING ACROSS THE ENTIRE ORGANIZATION.

55%
SAY ETHICAL AND COMMERCIAL CONSIDERATIONS ARE EQUALLY IMPORTANT WHEN EVALUATING SUPPLIERS.

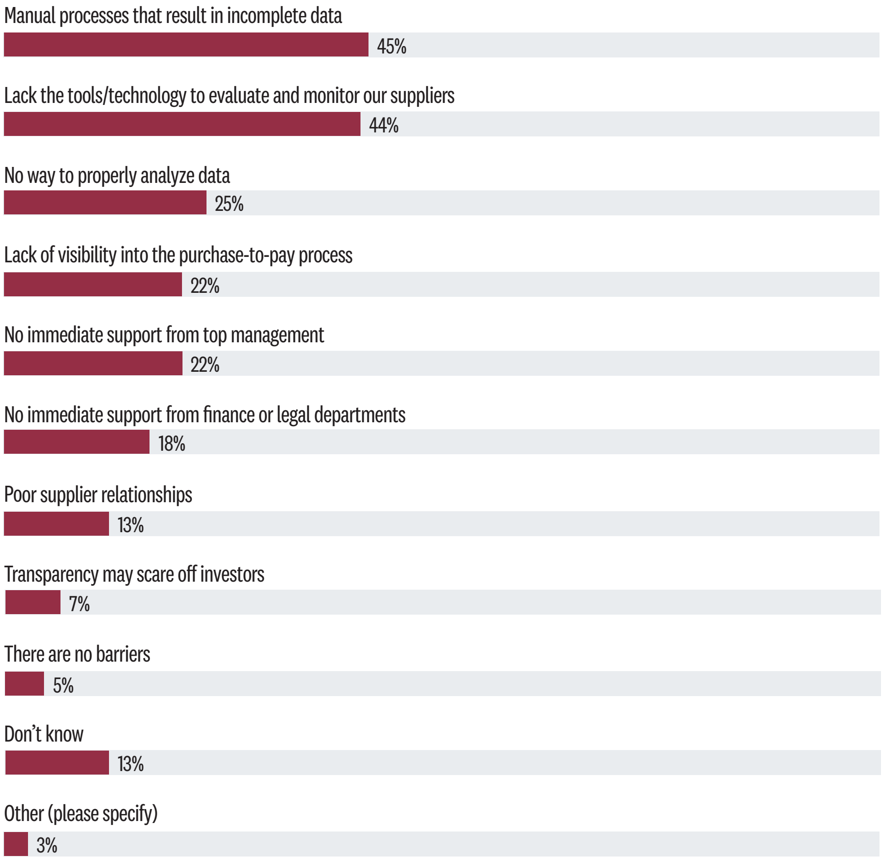
26%
SAY TRANSPARENT FINANCE AND PROCUREMENT PROCESSES WOULD LEAD TO AN 11% TO 20% COST REDUCTION.

Respondents cite alignment to a **broader culture and values** (38%), increased **colleague engagement** (36%), and a reduction in complexity and **improved process efficiency** (30%) as the top reasons to adopt transparency.

FIGURE 1

LACK OF TECHNOLOGY STANDS IN THE WAY

The biggest barriers to getting greater transparency into respondent's suppliers' business practices.



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2019

"It requires a lot of champions," says Guillaume Roels, Timken Chaired Professor of Global Technology and Innovation at INSEAD. "It's an old story. It's a hard problem to crack. It's still amazing at this age of technology that we still face the same issues as 30 years ago."

Today, champions of transparency can often be found in finance and procurement departments, which are pioneering the tools and tactics to heighten visibility into business relationships and are modeling a culture of openness for the rest of the organization, according to the Harvard Business Review Analytic Services study. Fifty-nine percent of respondents say that they expect their organizations' finance and procurement arms to drive their culture of transparency. FIGURE 2

Roels says the technical challenges have largely been overcome, but cultural and organizational issues remain: "The main constraint is aligning organizations," he says. "The question is to get buy-in. We have to move beyond the mentality of silos. Many organizations try to optimize just for their business, but they don't see the whole value chain."

Julie Niederhoff, associate professor of supply chain management at the Whitman Business School at Syracuse University, agrees: "It requires a lot of trust. It's a laudable goal, but it's hard to do, especially in some supply chains. Often it's an enormous network. You may not even know all the players."

Suppliers' Threats to Visibility

Today's finance and procurement leaders must be responsive in real time and be adaptable in their approach. They must be able to collaborate with their customers and suppliers. They must integrate and increase the transparency of their own end-to-end operations while extending their processes to collaborate in a global network, incorporating business partners and customers seamlessly. And, at a time when raw materials and components, manufacturers, and consumers are increasingly geographically dispersed, maintaining visibility throughout the supply chain is more important than ever—and more difficult.

Just how finance and procurement leaders manage these issues offers a window into the benefits and challenges associated with a values-based organization.

While a third of survey respondents say they have automated finance and procurement processes to increase transparency across the business, more than 60% of respondents say that a lack of visibility into their suppliers' practices is a significant risk management issue. And many say they lack the tools to evaluate or monitor those vendors.

As a result, nearly a quarter of respondents say their organization is not accurately evaluating their suppliers' business practices.

With transparency, Niederhoff says, comes the responsibility to remedy what is now visible. "Hopefully it leads to cost savings and brand improvement," she says, "but it may take quite a while before you can respond to the problems that you discover."

Transparency in Action

As more organizations see the importance of their reputation to their commercial success, they are embracing transparency as a core value. And an organization's approach to procurement is one of the most visible ways a culture of transparency can come to life.

At Tiffany & Co., for instance, the issue of transparent sourcing is critical to the brand. Buyers—especially young buyers—want evidence that their gems were not produced using child labor or to finance wars or terrorist activity. Their concerns over these so-called blood diamonds are very real. As a result, starting this year, Tiffany is telling its customers which country the diamond came from. In 2020, it will share information about where each diamond was cut, polished, and set.

Tiffany's buys its rough diamonds from suppliers with many mines. The country-of-origin information comes from those companies and does not link diamonds to specific mines. As a result, the store is asking customers to trust its judgment that particular countries, such as Canada or Botswana, are ethical producers, a test of its brand in a world of skeptical consumers.

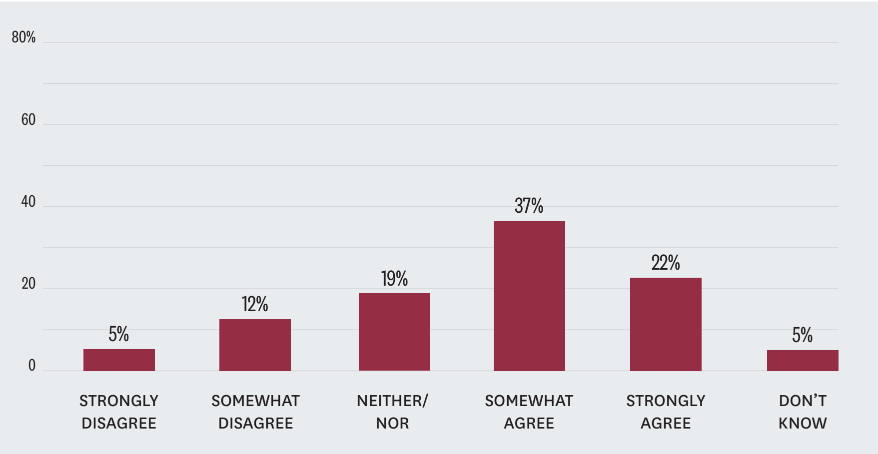
The renowned jeweler has much at stake. It sold more than $500 million worth of diamond engagement rings in 2017, according to the company.

In a similar embrace of end-to-end visibility, global fashion brand Ralph Lauren recently introduced "digital product IDs," which allow consumers to confirm that its products are authentic. In addition, the digital identity enables

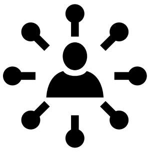
FIGURE 2

FINANCE AND PROCUREMENT LEAD THE WAY

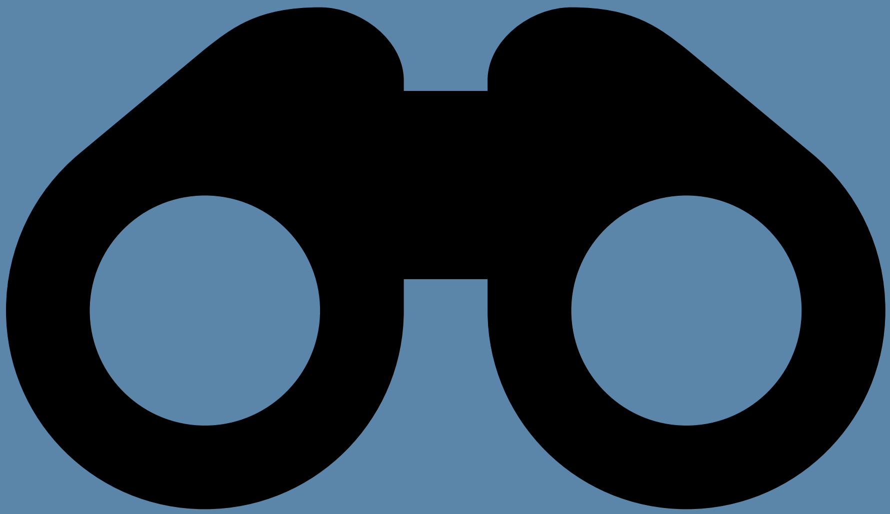
Extent respondents agree or disagree with the statement: "My organization expects the procurement/finance team to identify and drive a business culture of transparency."



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2019



ROELS SAYS THE TECHNICAL CHALLENGES HAVE LARGELY BEEN OVERCOME, BUT CULTURAL AND ORGANIZATIONAL ISSUES REMAIN.



MORE THAN 60% OF RESPONDENTS SAY THAT A LACK OF VISIBILITY INTO THEIR SUPPLIERS' PRACTICES IS A SIGNIFICANT RISK MANAGEMENT ISSUE.

consumers to receive product details and styling recommendations. Across the supply chain, it allows real-time visibility to track a product from the manufacturer to the store shelves and to improve inventory management.

A Rising Priority

Survey respondents cite alignment to a broader culture and values (38%), increased colleague engagement (36%), and a reduction in complexity and improved process efficiency (30%) as the top reasons to adopt transparency.

Meanwhile, survey results show an increasing awareness of the connection between transparency in general and in the finance and procurement areas. Just under 40% of respondents say better decision making throughout the organization is among the top outcomes of transparency, and 36% of respondents cite its effect on the organization's broader reputation. FIGURE 3

"At a minimum, there's reputational and real material risk," says Jenny Ahlen, director of supply chain at Environmental Defense Fund (EDF).

As a result, visibility is rising as a priority in procurement. More than half (55%) of respondents say ethical and commercial considerations are equally important when evaluating suppliers, a number that is roughly consistent across different regions. And just under a third (32%) say that contractor decisions are driven "to a large extent" by the visibility of the supplier's business practices.

It's important, Niederhoff says, to minimize the potential risk of supply chain disruption or brand-damaging behavior. "Those two things together are a pretty strong incentive to put transparency into place," she says.

Small wonder, then, that just under 40% of respondents say their organization would like to do more to evaluate its suppliers' practices to assess its ethics.

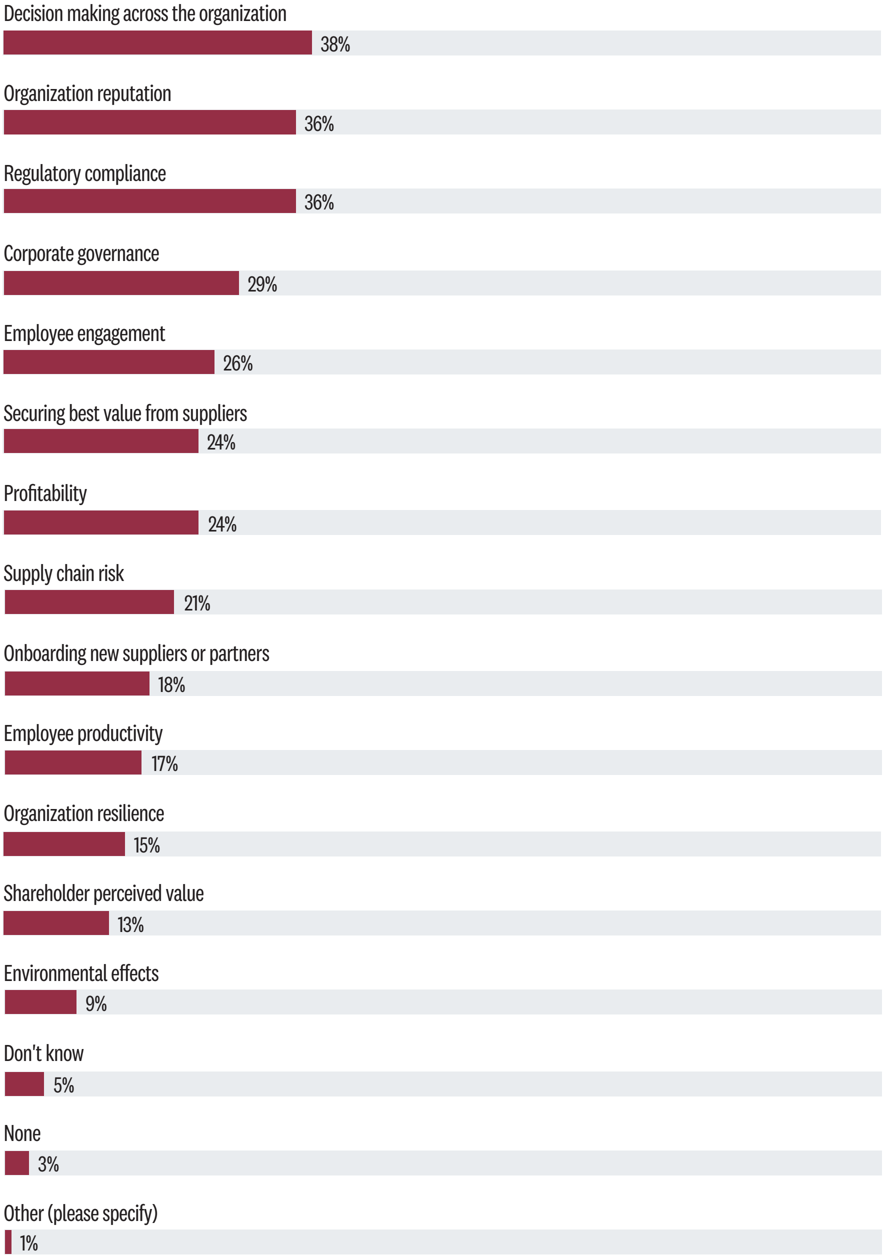
Openness Creates Business Value and a Competitive Edge

The stakes go well beyond reputation management: Twenty-one percent

FIGURE 3

TRANSPARENCY BRINGS INTERNAL AND EXTERNAL BENEFITS

Respondents rated the impact that their organization's level of finance and procurement process transparency has had on each of the following areas of their organization.

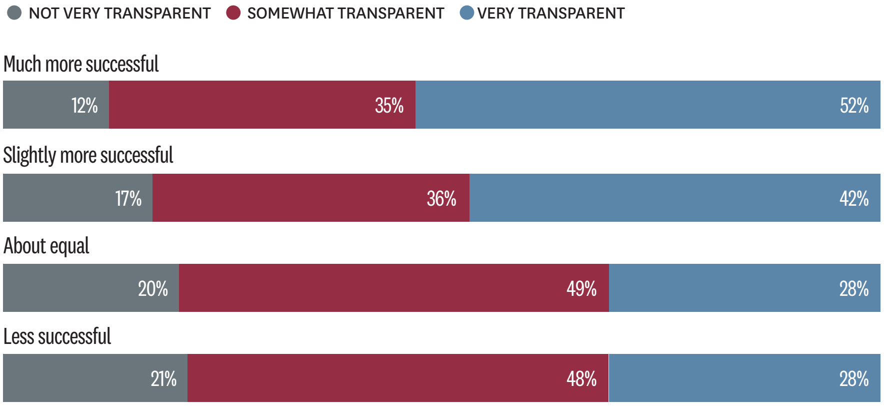


SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2019

FIGURE 4

SUCCESS AND TRANSPARENCY GO TOGETHER

Respondents rated the transparency of their organization's finance and procurement processes today.



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, SEPTEMBER 2019

ORGANIZATIONS THAT IDENTIFY THEMSELVES AS "MUCH MORE SUCCESSFUL" THAN THEIR COMPETITION TRACK THE STRONGEST AGAINST TRANSPARENCY.

of respondents say more transparent finance and procurement processes would result in a 6% to 10% reduction in operational costs, 26% say it would lead to an 11% to 20% cost reduction, and 10% say it would reduce costs by more than 20%.

"Businesses really compete at the supply chain level," Roels says. "You need to find ways to capture the savings and to share the benefits with your supply chain partners."

What's more, organizations that identify themselves as "much more successful" than their competition track the strongest against transparency, with more than 80% saying it is "very important."

Companies that say they are "very transparent" say they are more successful (65%) than their competition, compared with 47% of those who are less transparent. FIGURE 4

In fact, companies that identify as "much more successful" than their competition consistently lead in visibility. Fifty-two percent of these companies say they are "very" transparent compared with slightly more than a third (37%) of all respondents, 48% say they take transparency of suppliers into account "to a large extent" when evaluating them, compared with a third of all respondents (32%), and 46% say they are "very effective" at accurately evaluating their suppliers' business practices, but just 28% of all respondents do.

Despite the difficulty of implementation, many companies are starting to see the business value of transperancy, Ahlen says. "They try one thing and they see the success—to the business, risk management, PR—and they are hooked," she adds.

Ahlen has worked extensively with Walmart on the sustainability of the mammoth retailer's supply chain: "If you look at the growth of more sustainable products versus the general market, there's a huge growth opportunity in developing and marketing products that people can feel great about buying," she says. "I don't know why people aren't paying more attention. It's a win-win."

Barriers Blocking the Transparency Vision

Still, there are significant challenges to meeting the vision of a truly transparent culture. According to Deloitte's Global CPO Survey 2018, for example, 65% of procurement officers have limited or no visibility beyond their tier one suppliers. Respondents to the Harvard Business Review Analytic Services survey cite several reasons, including a lack of electronic connectivity with their suppliers (35%), a lack of access to the necessary analytics tools (35%), and a lack of analytic expertise to implement visibility systems (35%).

"Internal operations are much easier to set up transparent systems for," Niederhoff says. "With the supply chain, it's much more complex. Often there's a supplier and sub-suppliers. It may be difficult to source back to who was on your contract. There's a trade-off between perfect visibility and the slower pace of bringing people on board."

For example, while more than half of survey respondents have some of their suppliers electronically connected to their purchase-to-pay system, nearly a quarter of respondents say that none of their suppliers are electronically connected to their purchase-to-pay system.

In addition, 45% of respondents say the biggest barrier to supplier visibility is manual processes that result in incomplete data, 44% cite a lack of tools and technology to evaluate and monitor their suppliers, and 25% say they have no way to properly analyze the data.

"So many companies in the value chain are really small," Niederhoff adds. "They aren't used to plugging their data into these systems. Somebody has to pay for it, and somebody has to do the work. It's hard when the supplier and the customer are both small."

"IF YOU LOOK AT THE GROWTH OF MORE SUSTAINABLE PRODUCTS VERSUS THE GENERAL MARKET, THERE'S A HUGE GROWTH OPPORTUNITY IN DEVELOPING AND MARKETING PRODUCTS THAT PEOPLE CAN FEEL GREAT ABOUT BUYING."

JENNY AHLEN, DIRECTOR OF SUPPLY CHAIN AT ENVIRONMENTAL DEFENSE FUND (EDF)

The **benefits of transparency** are clear: The organizations that have embraced the value of transparency gain **operational efficiency** and a variety of **intangible benefits**.

Gartner, the research and advisory firm, says "procure-to-pay" (P2P) platforms can offer a solution by enforcing compliance with sourcing agreements, approval rules, and financial policies. "Automating the P2P process improves operational efficiencies, supports superior working capital management, and greatly reduces the potential for rogue spending, human error, and fraud," Gartner wrote in a July 2019 report on the e-procurement industry.

What's more, just having the information is not enough, experts say. "We have to go back to fundamentals," INSEAD's Roels says. "We have to understand each other's decision making and cultures. We've got the technology, but technology alone does not solve this problem."

And, as Niederhoff stresses, once you have transparency, there is an obligation to fix the problems that are not visible: "Some things can't be fixed by contract," she explains. "If we go into it with the goal of setting up transparency, you may not like what you find. That might mean a big change of practice or suppliers."

Digitization on the Rise

The transparency movement is happening while finance and procurement are undergoing an equally significant transformation. Automation, digitization, and disruptive trade policy are combining to upend the status quo. Adaptation will require significant change, yet executives are confident in their ability to manage, according to a recent survey by The Economist Intelligence Unit (EIU).

The survey, conducted in February and March of 2019, found nearly two-thirds of finance and procurement executives were confident that their organizations would adapt to continued automation, digitization, and global trends in trade more effectively than their peers.

The report found that digitization would not only reduce overall costs but also intensify competition for talent. Twenty percent of respondents to the EIU survey said the greatest impact of digitization would be on the procurement process.

The drive toward digitization—and the investment that comes with it—is an opportunity for organizations to build transparency into their systems as they retool, upgrade talent with visibility in mind, and diversify their supply chain partners to mitigate risk. "Operations efficiency is a bigger driver than market position," Roels says. "Efficiency is a benefit that's available to everyone, while branding may not be the strategy that makes sense for everybody."

Conclusion

Results from the Harvard Business Review Analytic Services survey indicate that maintaining visibility throughout the entire supply chain is more important now than ever, and that limited transparency raises reputation risk and increases the difficulty of managing operating costs.

The benefits of transparency are clear: The organizations that have embraced the value of transparency gain operational efficiency and a variety of intangible benefits, including empowered employees, reputational lift, and better decision making throughout the organization.

And, while survey respondents do not yet see a big impact of supply chain transparency on sustainability, the environmental impact can be an even bigger opportunity to both do good and improve operations.

"There's benefit that sustainability work makes operations more efficient, so there's return on investment," EDF's Ahlen says. "They can see real business impact."

But to have that kind of impact requires more than just a transparent culture: "A piece of this is having the transparency—having the information," Ahlen says. "But then there's the second piece. What do you do with that information? No matter what [the] size of the company, there are great opportunities to take a more impactful approach—to set standards and policies—and to reward suppliers who excel. That requires a new mindset."

As Roels says, "Transparency doesn't come for free. You have to work hard to get it."

There is still a lot of work to be done. Despite the importance placed on ethical considerations, the most common factors for evaluating suppliers remain economic. Sixty percent of respondents cite "value for money" and 54% call out "cost savings" as their top two criteria.

Those leaders who adopt quickly stand to widen the impact of finance and procurement. In fact, nearly 60% of survey respondents say that their procurement and finance teams are expected to identify and drive a business culture of transparency throughout the organization.

And while every organization cannot immediately reach full transparency, experts agree that all organizations can —and should—start on the path.

"Any company can do it." Ahlen says. "They have to be willing. They have to see the need and want to do it."

METHODOLOGY AND PARTICIPANT PROFILE

A total of 779 respondents drawn from the HBR audience of readers (magazine/enewsletter readers, customers, HBR.org users) completed the survey.

SENIORITY

35%
EXECUTIVE MANAGEMENT/BOARD MEMBERS

38%
SENIOR MANAGEMENT

15%
MIDDLE MANAGEMENT

13%
OTHER

KEY INDUSTRY SECTORS

ALL OTHER INDUSTRY SECTORS WERE LESS THAN 7% EACH.

15%
FINANCIAL SERVICES

14%
TECHNOLOGY

13%
MANUFACTURING

9%
BUSINESS/PROFESSIONAL SERVICES

8%
HEALTH CARE

JOB FUNCTION

ALL OTHER INDUSTRY SECTORS WERE LESS THAN 7% EACH.

26%
GENERAL/EXECUTIVE MANAGEMENT

11%
CONSULTING

10%
FINANCE/RISK

7%
SALES/BUSINESS DEVELOPMENT/CUSTOMER SERVICE

7%
HR

REGIONS

47%
NORTH AMERICA

25%
EUROPE

15%
ASIA/PACIFIC

6%
LATIN AMERICA

6%
MIDDLE EAST/AFRICA

1%
OTHER

Figures may not add up to 100% due to rounding.

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